



WILLIAM T FUJIOKA  
Chief Executive Officer

# County of Los Angeles CHIEF EXECUTIVE OFFICE

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## **REVISED**

Total deferred payments  
for Health and Social  
Services on page 2  
changed to \$1.297 billion

January 26, 2009

To: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer

Board of Supervisors  
GLORIA MOLINA  
First District

MARK RIDLEY-THOMAS  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

**RESPONSE TO BOARD ORDER OF JANUARY 13, 2009 TO OPPOSE ANY PROPOSAL THAT DELAYS PAYMENTS TO THE COUNTY AND FOR THE CHIEF EXECUTIVE OFFICER TO REPORT BACK IN ONE WEEK ON ANY POTENTIAL IMPACT OF THIS PROPOSAL TO DELAY PAYMENTS TO COUNTIES FOR HEALTH AND HUMAN SERVICES (ITEM NO. 35-B, AGENDA OF JANUARY 27, 2009)**

On January 13, 2009, your Board approved a motion by Supervisor Knabe to oppose any proposal that delays payments to the County, and for the Chief Executive Officer to report back in one week on any potential impact of this proposal to delay payments to counties for health and human services.

As a result of the State's continuing fiscal deterioration, the Governor has proposed to defer payments for up to seven months for various County administered programs, and the State Controller has announced that certain February payments to counties would be delayed for at least 30 days due to the State's cash-flow shortfall. It is important to note that the Governor's proposal requires a two-thirds vote by the Legislature, while the State Controller has the authority to stop making payments. If enacted, the two proposals would be effective in February.

We estimate the impact of the Governor's proposed payment deferrals to be approximately \$1.423 billion, and the impact from the State Controller's February payment delay to be \$105.6 million. The County has a limited ability to handle the deferral on a very short-term basis. An extended term will negatively impact the County's fiscal viability.

*"To Enrich Lives Through Effective And Caring Service"*

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### **Governor's Proposed Payment Deferrals**

The Governor's proposal would defer payments for up to seven months to counties for most health and human services programs, and payments for gasoline sales tax (Proposition 42) and gasoline excise tax revenues. Reimbursement of State mandate payments would be delayed for three months. The Governor's proposed deferrals will result in the delay of approximately \$1.423 billion in payments to the County.

#### **Health and Social Services Programs**

The Governor proposes to defer payments to counties for most health and social services programs, with the exception of In-Home Supportive Services (IHSS) provider payments and SSI/SSP, for up to a seven month period. The payment deferral will be from February through August, with the expectation that the State will repay counties by September 30, 2009. The impact of the health and social services deferred payments by programs is:

<b>Program</b>	<b>Description</b>	<b>Deferral Impact</b>
Social Services Payments, except SSI/SSP and IHSS	Defers the February through August advance payments to counties for social services until September.	\$ 632.4 million
County Administration - Medi-Cal Program	Defers two quarterly payments to counties.	\$ 104.2 million
Medi-Cal Program Services	Defers payments to counties for February through August until September.	\$ 250.6 million
Early and Periodic Screening, Diagnosis and Treatment (EPSDT)	Defers two quarterly payments to counties.	\$ 69.0 million
Public Health Programs	Defers payments to counties for February through August until September.	\$ 241.4 million*
<b>Total Deferred Payments for Health and Social Services</b>		<b>\$ 1.297 billion</b>

\* Includes \$40.1 million in prior year payments that the Department of Public Health anticipates receiving during the deferral period.

If the Governor's payment deferrals are enacted and the County is not able to find a viable way to mitigate the problem, the proposal would result in severe consequences to direct operations, contracts, and services to the County's most vulnerable residents. In its current form, the Governor's proposal would affect the full spectrum of the County's responsibility for safety net programs and could result in:

- Delayed reimbursement to the County for inpatient and outpatient medical services provided to Medi-Cal patients and delayed Medi-Cal managed care capitation payments;
- Delayed reimbursement to counties for: a) substance abuse treatment services and HIV/AIDS treatment, prevention, and laboratory services provided by contract agencies; b) treatment and therapy services to children provided by private Medi-Cal providers; c) immunization services provided by Department of Public Health (DPH) and contract agencies; d) tobacco control activities provided by DPH; and e) tuberculosis treatment services provided by DPH;
- Delayed reimbursement for Early and Periodic Screening, Diagnosis and Treatment mental health services including outpatient services, assessments, case planning, provided by contractors and the Department of Mental Health directly operated programs to Medi-Cal beneficiaries under the age of 21;
- Delayed reimbursement for inpatient and residential mental health treatment and rehabilitation services;
- Delayed reimbursement for contractors that provide direct services which strengthen and support families, support adoptions, kinship, and relative care, and help foster youth successfully emancipate and become self-sufficient;
- Potential impact on the County's ability to continue the Title IV-E Waiver to the extent the loss of services result in increased detention of children and placements in out-of-home care;
- Potential delay of reimbursement for CalWORKs cash assistance for approximately 145,000 poor families. These funds are primarily used for rent and would likely result in an increase in homelessness. The number of CalWORKs homeless families has increased by 26.3 percent from 5,824 families in June 2008 to 7,356 families in November 2008;
- Delayed reimbursement of cash assistance to 5,300 elderly and disabled individuals who participate in the Cash Assistance Program for Immigrants;
- Delayed reimbursement for most public services which would result in decrease access to CalWORKs, Medi-Cal, and food stamps programs; and
- Delayed reimbursements to CalWORKs Stage One Child Care providers.

We are working with departments to get more detail information and will report back as more information becomes available.

### Proposition 42 and Gasoline Excise Tax Revenues

The Governor proposes to loan \$750 million from the Highway Users Tax Account (HUTA) to the State General Fund by postponing, from January through July 2009, the monthly transfer of gasoline excise tax revenues to cities and counties until September and October. The Governor also proposes to defer the June fourth quarter payment of Proposition 42 gasoline sales tax funds to cities and counties until October. The impact of the deferred payments by program is:

<b>Program</b>	<b>Description</b>	<b>Deferral Impact</b>
HUTA-County Road Fund	Defers January through July monthly payments to September and October.	\$ 66.4 million
Proposition 42 Funds	Defers the fourth quarter payment from June to October.	\$ 13.0 million
<b>Total Deferred Payments</b>		<b>\$ 79.4 million</b>

According to the Department of Public Works, these funds are used for the operation, maintenance, and rehabilitation of transportation infrastructure in unincorporated County areas, and if this proposal is approved, the Department will be forced to delay at least fifty-three (53) projects totaling \$52.2 million. Only high priority safety projects such as bridge seismic retrofits will be awarded until the gasoline excise tax and Proposition 42 funds are fully repaid.

This includes projects to resurface and reconstruct streets and roads that are in poor to very poor condition, landscaping projects of significant community interest, projects that are critical to the opening of key public facilities and the replacement of infrastructure destroyed during the recent wildfires.

### State Mandates Reimbursement

The Governor proposes to defer \$142 million Statewide in mandate reimbursements to local governments from August to October. Some of these mandates include AB 3632 mental health services to handicapped students, absentee ballot, and sexually violent predators claim reimbursements. If this proposal is enacted, the estimated impact to the County, as provided by the Auditor-Controller, would be:

<b>Program</b>	<b>Description</b>	<b>Deferral Impact</b>
State Mandates	Defers payments for mandate reimbursements from August to October.	\$ 46.3 million
<b>OVERALL PAYMENT DEFERRALS</b>		<b>\$1.423 billion</b>

### **State Controller February Payment Delay**

In addition to the Governor's proposed payment deferrals, on January 16, 2009, State Controller John Chiang announced that the State is facing a \$346 million shortfall by the end of February, which will force him to delay payments for at least 30 days to all programs not protected by the State Constitution, Federal law, or court rulings as having first claim to available State General Fund cash.

Absent a State Budget solution, the State Controller announced his intent to implement payment delays for: 1) claims by businesses for services and products they provide to the State; 2) assistance to more than one million aged, blind, and disabled Californians; 3) disbursements to State agencies that fund critical public services, including health and welfare services provided by counties; and 4) tax refunds for individuals and businesses.

Based on the limited information available, and in consultation with County departments, the estimated impact from February payment delay is:

<b>Program</b>	<b>February Payment Delay Impact</b>
CalWORKs Grants, Stage One Child Care, Employment and Eligibility Services	\$ 34.7 million
County Administration - Social Services Programs	\$ 38.9 million
County Administration – Medi-Cal Program	No impact
Funding for Mental Health Treatment and Rehabilitation Programs	\$ 25.7 million
Department of Alcohol and Drug Abuse – funding for counties to provide prevention, treatment, and recovery services)	\$ 6.3 million
<b>TOTAL</b>	<b>\$ 105.6 million</b>

### **Current County Financial Status**

The latest budget status report shows a projected County General Fund balance at year-end of \$64.2 million, which is \$35.8 million less than the \$100 million that we count on to help balance next year's budget. This does not include what may be disappointing results on sales tax revenue from the holiday season which should be available in February. It also does not include potential impacts from the Governor's latest budget proposals which would cost the County a projected \$50.5 million in the current fiscal year and \$268.6 million in Fiscal Year (FY) 2009-10. For FY 2009-10, we currently project a County shortfall of \$173 million, which has required us to ask departments to identify 5 percent budget curtailments, and again, does not include the impact of potential State cuts.

**Ability to Sustain Payment Delays and Planned Deferrals**

We have consulted with the Auditor-Controller and the Treasurer and Tax Collector to evaluate the County's ability to sustain planned month-to-month payment delays and proposed deferrals. Given our current cash position, and assuming no other serious interruptions to cash flow in the coming months, the 30-day February payment delay of \$105.6 million can be handled without serious consequence, although it will further strain the County's cash reserves. However, the duration of these month-to-month delays and the timeliness of a State catch-up on repayment is unknown, which is a serious concern.

**While the County may be able to fund the State's financial obligation for one month, the County cannot sustain the \$1.423 billion in payment deferrals from the Governor's proposal.** As it stands now, the County's cash flow is negatively impacted by hundreds of millions of dollars owed the County for operating health, mental health, and social service programs while waiting several months for State reimbursement. Further delays would create a liquidity crisis requiring severe cutbacks.

We will communicate the impact of these payment deferrals and delays to the Los Angeles County Delegation, the Governor, and the Legislative Leadership.

WTF:DL/GK  
ML:MR:IGA:er

c: Executive Officer, Board of Supervisors  
County Counsel  
All Department Heads